

## Fairtrade Cocoa in Ghana: Taking Stock and Looking Ahead

Some of the global chocolate industry's biggest players, such as Ferrero, Mars, and Hershey, have expressed their commitment to achieve a sustainable cocoa sector by the year 2020. As the world's second largest producer of cocoa, Ghana is also interested in moving towards sustainable cocoa production.

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Voluntary standards systems, such as Fairtrade, play an important role in providing independent third-party evidence of progress towards sustainability. Fairtrade does so by offering a framework for producers and buyers to engage in more equitable business relations, with reduced price risks for farmers and opportunities for cooperative and community development through investments enabled by the Fairtrade premium. Over the past years, Fairtrade has significantly advanced in Ghana's cocoa sector. Between 2009 and 2014, annual volumes of Fairtrade cocoa produced in the country increased from 481 MT to 54,600 MT. This impressive growth is linked to the evolution of Kuapa Kokoo as leading cocoa cooperative, and to the creation of numerous new cooperatives that obtained Fairtrade certification over the past few years. Founded in 1993

and Fairtrade-certified since 1995, Kuapa Kokoo has grown into the world's largest Fairtrade-certified cocoa cooperative. With about 100,000 members, organized into 57 independently registered Societies across 1,280 communities, Kuapa Kokoo offers technical services to its members, purchases cocoa as a Licensed Buying Company (LBC), and provides credit (through an associated credit union with more than 8,000 members). While Kuapa Kokoo continues to produce the lion share (77 percent in the season 2012-13) of Ghana's cocoa sold under Fairtrade terms, the newly founded cooperatives are increasingly contributing relevant volumes of Fairtrade-certified cocoa. From 2009 to 2014, the number of Fairtrade cooperatives rose from one (Kuapa Kokoo) to 11 and the share of cocoa with the Fairtrade label increased from less than 1 percent

to 6.1 percent of national production. In 2014, Ghana was the world's largest producer of cocoa sold under Fairtrade terms with a market share of 38 percent (followed by Côte d'Ivoire with a share of 30 percent).

As Fairtrade expands in Ghana, important questions arise in relation to the capacity of cocoa cooperatives and farmers to benefit from Fairtrade certification; and with respect to impactful ways for Fairtrade and partners to engage with these resource-poor stakeholders in response to the constraints they face at the beginning of the value chain. Here we offer insights into these questions by exploring the overall context in which Fairtrade operates in Ghana, as well as the capacities of four recently established Fairtrade-certified cocoa cooperatives and



their members. The latter's organization into cooperatives was facilitated by NGOs and cocoa buyers with the explicit goal of linking them to Fairtrade markets. Data are derived from a baseline study commissioned by Fairtrade Africa, including a household survey among 322 randomly selected members from four Fairtrade-certified cocoa cooperatives with a total membership of roughly 5,000.

#### Unique context for Fairtrade cocoa

Ghana stands out for strong state involvement in the cocoa sector—which is exercised through the Ghana Cocoa Board (COCOBOD) and associated government agencies. COCOBOD provides support in the form of seed production, pest and disease management, quality control, research, and marketing. Government

regulations stipulate that COCOBOD channels the sale of all cocoa exports, including Fairtrade cocoa. Within the country, COCOBOD sources all cocoa through Licensed Buying Companies (LBCs). This strong role allows COCOBOD to ensure the production of quality cocoa which fetches Ghana a premium on top of the world market price (about US\$100-150/MT). Farm-gate prices are fixed by COCOBOD's Producer Price Review Committee, comprising COCOBOD officials, a farmer representative, government staff and agents of LBCs. Despite the government's goal to reach producer price levels of 70 percent of the export (FOB) price, growers received only about 50 percent in the cocoa seasons 2013-14 and 2014-15 when selling cocoa to COCOBOD through LBCs as stipulated by law (while in addition there was significant contraband of

cocoa to neighboring Côte d'Ivoire where farmers received better prices).

Fairtrade-certified growers benefit from a floor price when the world market falls below a set level (US\$2,000/MT). Since December 2007, though, the world market price (currently about US\$3,100/MT) has constantly been above this threshold and, consequently, growers' monetary benefits have principally materialized in form of the Fairtrade premium (US\$200/MT). International buyers pay the premium directly to cooperatives on top of the price paid to COCOBOD. Guided by Fairtrade regulations, cooperatives decide how to invest this premium. In many cases, they use part of it for cooperative management and community development (about 50-70% of the premium) and the remainder for topping



up the cocoa income of their members (about 30-50% of the premium). However, the poverty reducing potential of cocoa farming in Ghana depends to a large extent on improving cocoa yields. Ghana's yields are about 25 percent below those of the world's ten largest cocoa producing countries, and roughly 15 percent below those of Côte d'Ivoire (the world's largest cocoa producer). Persistent poverty is a principal challenge for achieving a sustainable cocoa sector, along with poor rural infrastructure and services, a rapidly aging farming population, and weak organizational and management skills among cocoa cooperatives.

#### Cooperative capacities

The sampled cooperatives became officially registered between 2011 and 2012. All four have experienced rapid growth in membership since. In two cases, membership levels more than doubled. Slightly more than a third (37 percent) of the members were women, but they made up only 20 percent of the directors on the cooperatives' boards and 17 percent of those attending the general assemblies. Given COCOBOD's strong role in cocoa

marketing, the function of cooperatives in the value chain is often limited to coordinating Fairtrade certification and facilitating services to their members that NGOs and LBCs provide. The cooperatives had few grievances with cocoa buyers – not surprisingly, given the limited interactions with them beyond helping to organize trainings for their members. The biggest challenge the cooperatives face in terms of Fairtrade is the limited volume of certified cocoa that is sold under Fairtrade terms – a prerequisite for commanding the Fairtrade premium. The current share of a bit less than 50 percent of Fairtrade-certified cocoa effectively sold as such is clearly below expectations and needs. Another challenge is the cooperatives' high dependency on a few service providers. In addition to assistance provided by local Fairtrade staff, cocoa growers tend to receive services from a development project or an LBC, if any. While any support provided may be important, service delivery is often insufficient to build the capacities needed for helping the cooperatives develop into self-sustaining businesses over a reasonably short period of time. Bookkeeping, for example, is largely underdeveloped – even collect-

ing and analyzing basic information on production, income and expenses is not standard practice among many cooperatives. Basic infrastructure for maintaining a business – stable location, reliable road network, storage and meeting facilities, access to water and electricity – is often lacking. For funding their basic operations, cooperatives rely largely on the Fairtrade premium. Alternatives are limited, given that a cooperative would need to become accredited as an LBC if it sought to cover its service costs through commercial activities – to date, only one Fairtrade-certified cooperative in Ghana (Kuapa Kokoo) is authorized to purchase cocoa on behalf of COCOBOD. If the expectations are that these cooperatives develop into viable businesses, considerable long term investment and coordination will be required to develop their productive assets and business management skills, along with the capacity of their members to provide effective oversight of the administration.

#### Household capacities

Households had, on average, 4.3 ha of land under cocoa production, either as pure cocoa (30 percent) or mixed with

other crops (70 percent). Average yield was in the range of cocoa yields reported elsewhere in Ghana (400-530 kg/ha) – although there was considerable variation across the sampled households. Only 67 percent of them had replanted cocoa in the recent past. A good number had received training on basic cocoa production, but very few on effective leadership, cooperative management, organizational aspects, and issues related to gender equity within the household and the cooperative. Building capacities in these areas will be critical for strengthening cooperatives and increasing member benefits. Only about half of the households could afford to hire labor in the 2012-13 cocoa season. Most of the households had access to basic equipment for cocoa production (e.g. machetes, manual saws, and axes) but few to efficiency enhancing equipment, such as motorized sprayers or chain saws. Technical assistance and training were mainly provided by the cooperatives and their partners, while credit – available only in a few cases and usually in nominal amounts – was given by an LBC. In most cases, cocoa was the principal source of income, contributing on average US\$2,951 per household in the 2012-13 season. Evidently, cocoa production at this level cannot lift rural households out of poverty. Similarly, the average portion of the Fairtrade premium received by members in the 2013-14 season was US\$36 – a welcome supplement, but not a significant contribution to households' overall income. If the cooperatives had been able to sell all of their Fairtrade-certified cocoa under Fairtrade terms, the average premium in 2013-14 would have reached US\$74 per member. Finally, access to credit for making investments in cocoa remains severely constrained, with only 10 percent of sampled households having accessed credit of any kind and, if so, rarely under favorable conditions.

### Taking stock and looking ahead

Our analysis provides reason for some optimism, but also caution, regarding the outlook for the expansion of Fairtrade cocoa in Ghana. The cooperatives have taken first steps to building a viable busi-

ness. They have forged commercial relationships with LBCs and, through them, linkages with international cocoa buyers, in addition to partnerships with Fairtrade and other organizations providing technical and complementary assistance. They have also elaborated procedures for ensuring compliance with government regulations and Fairtrade standards (for example, environmental and child labor policies). At the same time, many cooperatives depend on a small number of service providers whose offer is limited in terms of coverage and scope. Internally, cooperatives are challenged by weak governance, limited human and financial resources, and poor infrastructure. It is therefore critical for cooperatives and their members to define, along with Fairtrade and other service providers, if future efforts should aim at building cooperative capacity to engage as licensed cocoa buyers with an integrated service offer, or to keep investments low and aim at building agile organizations that limit their engagement to facilitating links with buyers, Fairtrade, NGOs, and other supporters. Experiences in Ghana and elsewhere show that building integrated service cooperatives that are commercially viable takes considerable resources and time, often decades rather than years. For example, the conditions that allowed Kuapa Kokoo to emerge as leading Fairtrade-certified cocoa cooperative – sustained support and investment from NGOs and UK-based alternative trade organizations – are quite particular, and not all cocoa cooperatives will want or be able to follow a similar process. The alternative model are cooperatives with a light structure and limited service offer, supported by the unique institutional setup of Ghana's cocoa sector. The prominent role of LBCs as intermediary between COCOBOD and the cooperatives does not require the latter to engage in purchasing, processing and trading of cocoa. Most cooperatives can thus afford relatively simple governance structures, and external support can focus on building cooperative capacity to manage relationships with buyers, service providers, and Fairtrade – all this at low costs for both members and external supporters.

Given the advantages and disadvantages of the two cooperative models it is likely that a dual structure will emerge, with a limited number of strong cooperatives offering integrated services on the one hand, and a larger number of simple-structured cooperatives on the other. Irrespective of the cooperative model, a stronger coordination between COCOBOD, Fairtrade and other service providers is needed as both larger and smaller cooperatives require a complementary service offer and would appreciate coordinated service delivery and pooled investments among external service providers. The performance of the cooperatives and their capacity to support their members would further benefit from innovative approaches to monitoring, evaluation and learning. Such approaches would foster joint reflection among cooperative leaders, Fairtrade and other NGO staff, and local government representatives on cooperative development strategies and their outcomes. The baseline resulting from this study lays the foundation for ongoing monitoring of key indicators and future impact assessments, and the resulting findings can feed into a process of joint learning and continuous improvement.

On a broader perspective, both COCOBOD and large cocoa buyers have a strong role to play if Ghana's cocoa sector is to become sustainable over the next years. In addition to providing enabling conditions for the production of quality cocoa, COCOBOD could benefit from intensified dialogue and collaboration with voluntary standards systems including Fairtrade. Global chocolate manufacturers, in turn, have the opportunity to increase their purchases of Fairtrade-certified cocoa. This would be in direct support to closing the Fairtrade gap – the difference between the volume of Fairtrade-certified cocoa produced and the volume effectively sold under Fairtrade terms – and a strong signal underscoring their commitment to a sustainable cocoa sector. A national cocoa roundtable involving stakeholders from the public and private sectors and civil society would facilitate cross-sector coordination and collaboration towards this end.